

**PUBLIC DISCLOSURE**

**August 27, 2012**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**WEBSTER FIVE CENTS SAVINGS BANK**

**CERT # 90297**

**136 THOMPSON ROAD**

**WEBSTER, MASSACHUSETTS 01570**

**Division of Banks**

**1000 Washington St, 10<sup>th</sup> Floor**

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**350 Fifth Avenue, Suite 1200**

**New York, New York 10118**

<p><b>NOTE:</b> This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate- income neighborhoods, consistent with safe and sound operations of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.</p>
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## TABLE OF CONTENTS

I.	General Information .....	1
II.	Institution Rating	
	A. Overall Rating .....	1
	B. Performance Test Ratings Table .....	1
	C. Summary of Major Factors Supporting Rating .....	2
III.	Institution	
	A. Description of Institution .....	3
	B. Description of Assessment Area .....	4
	C. Scope of Examination .....	7
	D. Conclusions with Respect to Performance Tests .....	9
	1. Lending Test .....	9
	2. Investment Test .....	18
	3. Service Test .....	21
IV.	Appendices	
	A. Fair Lending (Division of Banks) .....	28
	B. Loss of Affordable Housing (Division of Banks) .....	30
	C. General Definitions .....	31
	D. Investment Definitions .....	34

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) and the Federal Deposit Insurance Corporation (FDIC) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Webster Five Cents Savings Bank (or the Bank)**, prepared by the Division and the FDIC, the institution's supervisory agencies as of **August 27, 2012**. The Division and the FDIC evaluate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and Part 345 of the FDIC's Rules and Regulations, respectively.

**INSTITUTION'S CRA RATING: This institution is rated "Outstanding."**

An institution in this group has an excellent record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The following table indicates the performance level of Webster Five Cents Savings Bank with respect to the Lending, Investment, and Service Tests.

**LENDING, INVESTMENT, AND SERVICE TEST TABLE**

<b>PERFORMANCE TESTS</b> <b>Webster Five Cents Savings Bank</b>			
<b>Performance Levels</b>	<b>Lending Test*</b>	<b>Investment Test</b>	<b>Service Test</b>
Outstanding		<b>X</b>	<b>X</b>
High Satisfactory	<b>X</b>		
Satisfactory**			
Needs to Improve			
Substantial Non-Compliance			

\*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

\*\*Note: FDIC rules and regulations stipulate use of a high satisfactory and low satisfactory rating for the three tests. For purposes of this jointly issued public evaluation, the term "satisfactory" will be used in lieu of the "low satisfactory" rating for the lending, investment, and service test ratings.

## **LENDING TEST**

The Lending Test is rated “High Satisfactory” based on the following:

- Lending levels reflect good responsiveness to the assessment area’s credit needs.
- Overall, an adequate percentage of loans were originated within the assessment area. Collectively, 59.6 percent of the number of the Bank’s home mortgage and small business lending during the evaluation period was inside the assessment area.
- The geographic distribution of home mortgage and small business loans reflects excellent penetration among geographies of all income levels throughout the assessment area. The Bank’s home mortgage and small business lending in low- and moderate-income geographies significantly exceeded aggregate lending data in 2010.
- The distribution of the Bank’s home mortgage and small business loans reflects excellent penetration among retail customers of different income levels and businesses of different sizes. The Bank’s home mortgage lending to low- and moderate-income individuals, and small business lending to businesses with gross annual revenues of \$1 million or less, significantly exceeded aggregate lending data in 2010.
- The Bank made an adequate level of community development loans in the assessment area.
- The Bank uses innovative and flexible lending practices to better meet the assessment area’s credit needs.

## **INVESTMENT TEST**

The Investment Test is rated “Outstanding” based on the following:

- The Bank has an excellent level of qualified community development investments and grants.
- The Bank exhibits excellent responsiveness to the assessment area’s credit and community economic development needs.

## **SERVICE TEST**

The Service Test is rated “Outstanding” based on the following:

- The Bank’s delivery systems are readily accessible to all portions of the assessment area.
- With the exception of a branch relocation, the Bank has not opened or closed any branches since the prior evaluation.
- Services do not vary in a way that inconveniences certain portions of the assessment area.
- The Bank is a leader among institutions of its asset size in providing community development services.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Webster Five Cents Savings Bank is a state-chartered, stock savings bank headquartered in Webster, Massachusetts. The Bank is a wholly-owned subsidiary of WEBFIVE, a bank holding company. The Bank was founded on August 10, 1868 and operates from eight retail offices. This includes its main office located at 136 Thompson Road in Webster and branch offices in Auburn, Dudley, Oxford, Shrewsbury, and Worcester (3). The Bank also maintains an operations center located at 10 A Street in Auburn; however, this facility does not offer retail services of any type, and is not open to the public.

The Bank has four subsidiaries: Webster One, Inc.; Webster Two, Inc.; the Webster Five Cents Savings Foundation (WFCSF); and OREO Bay, LLC. Webster One, Inc. is a securities corporation formed in January 1997 to hold the Bank's securities portfolio and for tax purposes. Webster Two, Inc. is also a securities corporation established for tax purposes and was formed when Webster One, Inc. reached its statutory limit. WFCSF is a charitable foundation formed to make grants to a wide variety of public charities that qualify under the Internal Revenue Service code to receive tax-deductible charitable donations. OREO Bay, LLC was incorporated in July 2009 to hold real estate obtained by the Bank through foreclosure. None of the Bank's subsidiaries offer loans or other financial products and services to the public.

As of June 30, 2012, the Call Report date used for this evaluation, the Bank had total assets of \$561.4 million. Total assets have decreased slightly since the prior CRA evaluation from \$569.2 million to the current level. Net loans and leases decreased from \$377.4 million to \$346.5 million, or 8.2 percent. The Bank's investment portfolio increased from \$149.4 million to \$169 million, or 13.1 percent during the same timeframe. The decrease in assets is attributed in part to the lagging economy and the Bank's decision to act as a real estate mortgage broker for other lenders in late 2010, rather than originating the loans directly.

The Bank's primary business focus is real estate lending. As shown in Table 1, loans of all types total \$350.9 million, or 62.5 percent of total assets. Loans secured by one-to-four family residential properties account for the largest share of all loans with 44.5 percent of the portfolio. These loans include closed-end mortgage loans (including junior liens) as well as revolving home equity lines of credit. Commercial real estate loans follow at 26.6 percent. Commercial real estate loans are typically collateralized by the properties used for the borrowers' businesses, such as small office buildings, warehouses, and retail facilities. The balance of the portfolio consists of consumer loans at 11 percent, commercial and industrial loans at 10 percent, multi-family residential loans at 4 percent, construction and land development loans at 3.7 percent, "other" loans at 0.1 percent, and loans secured by farmland at 0.1 percent.

<b>Table 1</b>		
<b>Loan Portfolio as of June 30, 2012</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(000's)</b>	<b>Percent of Total Loans</b>
Construction and Land Development	12,807	3.7
Secured by Farmland	235	0.1
1-4 Family Residential	156,265	44.5
Multi-Family (5 or more) Residential	13,956	4.0
Commercial	93,431	26.6
<b>Total Real Estate Loans</b>	<b>276,694</b>	<b>78.9</b>
Commercial and Industrial	35,154	10.0
Consumer	38,671	11.0
Other	346	0.1
<b>Total Loans</b>	<b>350,865</b>	<b>100.0</b>
<i>Source: Report of Condition and Income (Call Reports)</i>		

The Bank's CRA performance was last evaluated by the Division and the FDIC on December 21, 2009, and was rated "Outstanding." There are no significant financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area.

### **Description of Assessment Area**

The CRA requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The Bank's assessment area as currently defined meets the technical requirements of the CRA regulation since it: (1) consists of one or more political subdivisions, (2) includes the geographies where the Bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originated a substantial portion of its loans, (3) consists of whole census tracts, (4) does not extend substantially beyond state boundaries, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

The Bank has defined a single contiguous assessment area which includes 15 cities and towns in south-central Massachusetts and north-central Connecticut. These include Auburn, Boylston, Charlton, Douglas, Dudley, Grafton, Leicester, Northborough, Oxford, Shrewsbury, Webster, Westborough, and Worcester all in Massachusetts, and Putnam and Thompson, Connecticut. All of the cities and towns located in Massachusetts are part of the Worcester Massachusetts Metropolitan Statistical Area (MSA). The municipalities of Putnam and Thompson, Connecticut are located in a non-MSA area.

The assessment area is diverse, with urban and suburban characteristics. The City of Worcester represents the more urbanized segment of the assessment area. The other communities in the assessment area tend to be suburban and even rural in character.

<b>Table 2 Demographic Information</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA*</b>
Geographies (Census Tracts)	80	12.5	22.5	47.5	16.3	1.2
Population by Geography	357,563	10.6	21.9	44.6	22.8	.1
Owner-Occupied Housing by Geography	80,086	2.4	15.0	53.7	28.9	.0
Business by Geography	23,701	9.5	22.1	42.3	26.1	.0
Family Distribution by Income Level	89,416	22.4	17.9	22.1	37.6	.0
Median Family Income		59,317	Median Housing Value Unemployment Rate (2000 US Census)		137,675	
HUD Adjusted Median Family Income (MFI) for 2011		82,342			2.3%	
Households Below Poverty Level		11%				

Source: 2000 U.S. Census and 2011 HUD-updated MFI.

(\*) The NA category consists of geographies that have not been assigned an income classification.

As Table 2 shows, the area is composed of 80 census tracts, including 10 low-, 18 moderate-, 38 middle-, 13 upper-income, and 1 census tract that does not have an income designation. All 10 of the area's low-income census tracts and 13 of its 18 moderate-income geographies are located in Worcester. Three of the five remaining moderate-income geographies are located in Webster (2) and Douglas (1) and form a contiguous area that represents the "downtown" sections of the two towns. The other two moderate-income geographies are located in Thompson and Putnam. These two census tracts are also contiguous to one another along the western boundaries of these two Connecticut towns.

The area also contains one census tract for which income has not been reported. The census tract is located in the Town of Grafton and contains two residential youth facilities operated by the Massachusetts Department of Social Services and the Tufts University School of Veterinary Medicine. The 324 residents of the two youth facilities comprise the population of this census tract. This census tract contains no households or business enterprises that would generate a demand for loans. Thus, this census tract will not be included in the analysis of the Bank's CRA performance since it contains no opportunities for a financial institution to make a residential mortgage or small business loan.

As shown in Table 2, the assessment area has a total population of 357,563, and contains 89,416 family households. Of all families in the area, 22.4 percent are low-income, 17.9 percent are moderate-income, 22.1 percent are middle-income, and 37.6 percent are upper-income. The City of Worcester, with a population of 172,648, contains 48.3 percent of the area's total population. The city's 39,732 families represent 44.4 percent of all families in the area.

Of the area's 143,986 housing units, 55.6 percent are owner-occupied. The rate of owner occupancy within the assessment area varies by the degree of urbanization. Many census tracts in Worcester have owner occupancy rates below 20.0 percent. This contrasts with more suburban areas like Charlton, Northborough, and Shrewsbury where the owner occupancy rate is in the 80 percent range.

According to the Warren Group, which tracks home sales figures, single family home sales in Massachusetts hit a two-year high in July 2012. Specifically, just short of 5,500 homes were sold in June, up from almost 4,370 for the previous year. Year-to-date sales are up by almost 25 percent.

The increasing numbers reflect similar levels to what occurred when the homebuyer tax credit was introduced (\$8,000 homebuyer tax credit expired June 2010). According to the Warren Group, sales figures for Worcester County show an increase of nearly 36 percent in July 2012 from the previous year. The median price for a home in Worcester County fell to \$210,000, a decrease of nearly 11 percent from the prior year (2011). Statewide, the median home sales price fell only 1 percent, from \$325,000 to \$322,000, further highlighting that Worcester County has been more severely impacted by the collapse of the housing market, and the economic recovery has been slower than experienced in other parts of the state.

Numerous businesses operate throughout the area, most of which are concentrated in the middle- and upper-income geographies. According to 2011 Business Geodemographic Data, 23,701 businesses operate within the area. The highest proportion of these business establishments are engaged in the service industry. Businesses involved in retail trade, construction, and finance, insurance, and real estate make up a significant share of the establishments. Approximately 67 percent of the businesses that have reported their annual gross revenues have revenues of \$1 million or less, and over two-thirds employ four or fewer people. Some of the more prominent employers in the area include UMass Memorial Health Care, University of Massachusetts Medical School, and the City of Worcester.

The Bank operates in a highly competitive financial services market. In 2010, Home Mortgage Disclosure Act (HMDA) aggregate data shows that there were 331 institutions that reported originating at least one HMDA-reported loan (home purchase, home refinance, or home improvement of one-to-four family and multi-family property) in the assessment area. The top three lenders included Wells Fargo Bank, N.A.; Bank of America, N.A.; and Sovereign Bank, N.A. capturing 7 percent, 6.4 percent, and 4.2 percent of the market share, respectively. With its 103 home mortgage originations, the Bank captured 0.9 percent of the market, and was ranked 36<sup>th</sup> of 331 institutions. The locally-based residential mortgage lenders that reported originating residential mortgages in the assessment area included Central One Federal Credit Union, Bay State Savings Bank, and Webster First Federal Credit Union capturing 2 percent, 1.7 percent, and 1.3 percent of the market share and ranking 9<sup>th</sup>, 13<sup>th</sup>, and 23<sup>rd</sup>, respectively.

In 2010, small business aggregate data showed that 75 lenders reported originating small business loans in the assessment area. The Bank captured 0.6 percent of this market and was ranked 20<sup>th</sup> of 75 lenders. Approximately, 9 of the 19 small business lenders ranking higher than the Bank reported an average loan size of \$12,000 or less indicating these are more likely credit card loans, which tend to carry a higher interest rate. The Bank's average loan size was \$107,000.



## **Community Contact**

A review of two recent community contacts was conducted for additional insights into the area's housing and credit needs. One contact stated the Worcester area has been, and continues to be, in a transition phase. The area has experienced a general change in the characteristics of the population as well as business industry in recent years from a blue-collar, manufacturing community to a workforce more in the medical and educational industries. The contact noted the area has a solid business infrastructure and diverse population, but is still recovering from the economic recession. The second contact stated the area would benefit from programs and products specifically targeted to low- and moderate-income individuals through affordable deposit and lending products, affordable housing, donations, and employment education programs.

## **Conclusion**

Given the high percentage of low- and moderate-income borrowers residing in the assessment area and the insights provided by the community contacts, it can be concluded there is a need for affordable housing for low- and moderate-income individuals or families. Additionally, as the assessment area includes businesses involved in a variety of industries, there is a need for various commercial credit options to meet business financing needs.

## **SCOPE OF THE EXAMINATION**

At management's election, Large Bank CRA examination procedures were used to evaluate the Bank's performance. Large Bank CRA examination procedures evaluate a bank's CRA performance pursuant to three tests: Lending, Investment, and Services. The CRA evaluation considered activity between December 22, 2009, the date of the previous evaluation, and August 27, 2012, the date of this evaluation. A description of the applicable timeframes for the analysis of loan products and activities follows.

Discussions with management and a review of the Call Report revealed the Bank is primarily a residential lender. Consequently, residential lending received the greatest weight in the overall lending test conclusions. The CRA evaluation includes an analysis and presentation of the residential loan data for 2010 and 2011 calendar years. The residential loan data was obtained from the Loan Application Registers (LARs) maintained by the Bank pursuant to HMDA. The LARs contain data about home purchase and home improvement loans, including refinancings, of one- to four-family and multifamily (five or more units) properties.

The Bank is also an active commercial lender. Consequently, the Bank's business lending was also considered in the evaluation of the Bank's lending performance with a focus on small business loans. The CRA evaluation includes an analysis and presentation of the small business data for calendar years 2010 and 2011. Information concerning small business lending was derived from the small business loan data collected and reported at the election of management. Small business loans for purposes of this evaluation include commercial real estate loans and commercial and industrial loans with original balances of \$1 million or less.

Consumer loans and farm loans were not analyzed as part of this evaluation as these loans do not constitute a substantial portion of the loan portfolio.

The CRA evaluation also reviewed community development loans, innovative or flexible loans, grants, and services for the period from December 22, 2009 through August 27, 2012. Qualified equity investments held by the Bank were also included regardless of investment date; unless otherwise noted, the investment amounts reflect the August 27, 2012 book value.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

*The Lending Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: (1) the volume of lending activity; (2) the proportion of lending within the assessment area(s); (3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); (4) the distribution of loans among low-, moderate-, middle- and upper-income borrowers and businesses of different sizes; (5) the distribution of small business and small farm loans by loan amount at origination; (6) the volume of community development lending; and (7) the use of innovative or flexible lending practices. Performance under the Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.*

#### **Lending Activity**

The Bank's lending activity reflects good responsiveness to the assessment area's credit needs. The Bank's average net loan-to-deposit ratio (LTD) ratio for the period since the prior evaluation is 77.7 percent. This ratio was determined by averaging the quarterly net LTD ratios derived from the consolidated Reports of Condition and Income filed during the period from December 31, 2009, through June 30, 2012. Since the previous evaluation, the Bank's LTD ratio has fluctuated from a low of 70.8 percent as of March 31, 2012, to a high of 88.7 percent as of December 31, 2009. The following sections discuss the Bank's lending activity by loan type.

#### ***Home Loans***

In 2010, the Bank originated 103 home mortgage loans totaling \$13.3 million in the assessment area. Home purchase loans represented the primary focus of the Bank's home loan activity with 53.4 percent of the total number of loans. Home improvement and refinancings followed with 27.2 percent and 19.4 percent of all home mortgage loans, respectively. By dollar volume, \$7.8 million were home purchase loans, \$3.2 million were refinances, and \$2.3 million were home improvement loans.

Market rank data for 2010 was also reviewed as it provides additional insight into the Bank's home mortgage lending volume. In 2010, the Bank ranked 36<sup>th</sup> among the 331 HMDA reporting lenders that originated home loans in the assessment area. With 103 loan originations, the Bank obtained a 0.9 percent market share. Most of the lenders ranking higher than the Bank were mortgage companies and larger financial institutions which operate on a regional or national basis. However, several local competitors also ranked higher. These institutions were Central One Federal Credit Union, which ranked 9<sup>th</sup> with 223 loans; Bay State Savings Bank, which ranked 13<sup>th</sup> with 194 loans; Webster First Federal Credit Union, which ranked 23<sup>rd</sup> with 145 loans; Savers Co-operative Bank, which ranked 24<sup>th</sup> with 143 loans; and Southbridge Savings Bank which ranked 28<sup>th</sup> with 124 loans.

In 2011, the total number of home loans inside the assessment area decreased sharply to 52. This represents a decrease of 49.5 percent from 2010. According to management, the decrease is, at least in part, a function of the tax credit expiring in 2010. Additionally, the continued decline in

the housing market and overall stagnant economic recovery, especially in Worcester County is another contributing factor. Worcester County was more significantly impacted by the struggling housing market, and is experiencing a slower economic recovery when compared to other areas.

### ***Small Business Loans***

In 2010, the Bank reported 57 small business loans within its assessment area totaling \$6.4 million. Small business loans were originated for a variety of business purposes such as working capital, business expansion, equipment purchases, and the purchase or refinance of commercial real estate.

Market rank data, which provides additional insight into the Bank's volume of small business lending, shows in 2010, the Bank ranked 20<sup>th</sup> among the 75 reporting lenders that extended loans in the counties which comprise the Bank's assessment area. Many of the lenders ranked higher than the Bank were credit card banks that originated numerous advances in lower dollar amounts. When these lenders are removed, the Bank's standing increased to 11<sup>th</sup> behind larger competitors such as Wells Fargo Bank, N.A., TD Bank N.A., People's United Bank, Bank of America, N.A., Sovereign Bank, and RBS Citizens N.A.

In 2011, the number of small business loans decreased to 46 totaling \$5.2 million. The decline is attributed to the continued recession, reduced business expansion, and decreased demand for equipment purchases and other expenditures.

### **Lending Within the Assessment Area**

This performance criterion focuses on the percentage of the Bank's lending that occurs within the assessment area. Based on the data in Table 3, which shows the distribution of home mortgages and small business originated inside and outside of the assessment area by number and dollar volume, an adequate percentage of the Bank's loans were made in the assessment area.

**Table 3 - Distribution of Loans Inside and Outside of Assessment Area**

Loan Category	Number Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000s)	%	\$(000s)	%	
2010										
Home Purchase	55	53.9	47	46.1	102	7,772	63.4	4,479	36.6	12,251
Refinance	20	57.1	15	42.9	35	3,221	67.5	1,552	32.5	4,773
Home Improvement	28	73.7	10	26.3	38	2,352	51.9	2,176	48.1	4,528
Total	103	58.9	72	41.1	175	13,345	61.9	8,207	38.1	21,552
2011										
Home Purchase	28	38.9	44	61.1	72	3,124	37.8	5,148	62.2	8,272
Refinance	12	31.6	26	68.4	38	2,991	29.4	7,187	70.6	10,178
Home Improvement	12	54.5	10	45.5	22	821	51.0	789	49.0	1,610
Total	52	39.4	80	60.6	132	6,936	34.6	13,124	65.4	20,060
Total Home Loans	155	50.5	152	49.5	307	20,281	48.7	21,331	51.3	41,612
Small Business 2010	57	89.1	7	10.9	64	6,380	92.2	543	7.8	6,923
Small Business 2011	46	74.2	16	25.8	62	5,232	73.6	1,880	26.4	7,112
Total Small Business	103	81.8	23	18.2	126	11,612	82.7	2,423	17.3	14,035
Grand Total	258	59.6	175	40.4	433	31,893	57.3	23,754	42.7	55,647

Source: HMDA LARs and CRA Small Business Loan Registers for 2010 and 2011

### ***Home Loans***

Table 3 shows the Bank originated 155 home loans totaling \$20.3 million in the assessment area during the review period. This represents 50.5 percent of the total number and 48.7 percent of the total dollar volume of home loans originated. The overall volume of home loans originated within the assessment area was impacted by the high number of home purchase loans originated outside the delineated area due to the Bank's relationships with out-of-state mobile home dealers. In 2010, 46 or 63.9 percent of all the home loans originated outside of the assessment were for mobile homes. In 2011, 44 of 80 home loans outside the assessment area, or 55 percent, were for mobile homes.

Although the high proportion of mobile home loan originations outside the assessment area impacted performance under this factor, it should be noted mobile homes represent a form of affordable housing far more prevalent outside Massachusetts and Connecticut. In 2010, HMDA data shows 26.1 percent and 58.7 percent, respectively, of the mobile home loans were extended to low- and moderate-income borrowers. In 2011, HMDA data shows similar levels as 18.2 percent and 52.3 percent, respectively were extended to low- and moderate-income borrowers.

It is also important to note Table 3 does not reflect the Bank's broker-related activities. If these loans were considered in this analysis, the percentage of loans extended inside the assessment area would remain generally the same for 2010, but would increase for 2011 to 48.8 percent from 39.4 percent. In this arrangement, the Bank takes the loan application and gathers all necessary information as if making the credit decision in-house. The credit decision, however, is made by the entity which originates the loan. While the Bank is not originating the loan directly, it is helping to make credit available. In 2010, the Bank brokered eight loans, of which five were located in the Bank's assessment area totaling \$1.1 million. In 2011, the Bank brokered 34 loans, 29 of which were located in the assessment area and totaled \$4.9 million.

The proportion of home loans in the assessment area as well as the overall loan volume showed a notable decrease in 2011 as compared to 2010. This is attributed at least in part, to the area's struggling housing market and ongoing recession.

### ***Small Business Loans***

Table 3 shows the Bank originated 103 small business loans totaling \$11.6 million in the assessment area during the review period. This represents 81.1 percent of the total number and 82.7 percent by dollar volume of small business lending. The proportion of small business lending in the assessment area declined slightly from 2010 to 2011. However, as stated previously, this appears to be the result of the continued recession, reduced business expansion, and the decreased demand for equipment purchases and other expenditures, thus requiring the Bank to seek business loan customers throughout a larger area than was previously necessary in order to maintain the desired level of business loan volume.

### **Geographic Distribution**

The geographic distribution of home mortgages and small business loans was reviewed to assess the manner in which the Bank is addressing the credit needs of all geographic segments of the assessment area, including low- and moderate-income census tracts. Based on this data, the

geographic distribution of the Bank's loans reflects excellent penetration of loans throughout the assessment area.

### ***Home Loans***

The geographic distribution of HMDA loans reflects excellent penetration throughout the assessment area, including low- and moderate-income geographies. Summarized in Table 4 is the distribution of HMDA loans by census tract income level.

<b>Table 4 – Distribution of Home Mortgage Loans by Census Tract Income Level</b>						
<b>Census Tract Income Level</b>	<b>% of Total Owner-Occupied Housing Units</b>	<b>2010 Aggregate Lending Data (% of #)</b>	<b>2010 Bank</b>		<b>2011 Bank</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	2.4	2.1	11	10.7	9	17.3
<b>Moderate</b>	15.0	9.7	26	25.2	10	19.2
<b>Middle</b>	53.7	47.4	58	56.3	28	53.9
<b>Upper</b>	28.9	40.8	8	7.8	5	9.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>103</b>	<b>100.0</b>	<b>52</b>	<b>100.0</b>

*Source: 2000 U.S. Census Data; 2010 and 2011 HMDA Data*

Table 4 shows the geographic distribution of the Bank's home mortgage loans significantly exceeded the distribution of the area's owner-occupied housing units in the low- and moderate-income census tracts during both 2010 and 2011.

The 2010 aggregate HMDA data was also used to evaluate the Bank's geographic distribution of loans. The aggregate HMDA data is used as a measure of demand and includes lending information from all HMDA reporting lenders that originated loans in the bank's assessment area. The data shows that the Bank's lending consistently significantly exceeded aggregate levels in the proportion of loans originated in both low- and moderate-income geographies. Further analysis of 2010 aggregate HMDA data illustrates that the Bank ranked 4<sup>th</sup> out of 76 lenders (4.7 percent market share), and 11<sup>th</sup> out of 156 lenders (2.4 percent market share) that reported originating at least one loan in low- and moderate-income census tracts, respectively. As the top three lenders in each case were significantly larger than the Bank, the Bank's ability to attain a ranking of 4<sup>th</sup> in the low-income tracts is particularly noteworthy. As of the evaluation date, aggregate data for 2011 was not available for comparison purposes.

The comparatively high level of loans originated in the area's low- and moderate-income geographies appears to be attributable, at least in part, to the Bank's strong branch presence in the area's low- and moderate-income census tracts and the wide range of financing options it offers.

### ***Small Business Loans***

Table 5 shows the geographic distribution of the Bank's small business loans reflects excellent penetration throughout the assessment area. During 2010, the Bank's small business lending activity in low- and moderate-income geographies exceeded both business demographic data as well as aggregate. In 2010, the most recent year for which aggregate lending data is available, the Bank made 12.3 percent of its small business loans in low-income census tracts compared to aggregate lenders at 4.8 percent. In the moderate-income census tracts, the Bank extended 24.6

percent of its loans compared to aggregate area lenders at 17.2 percent. In 2011, the number of small business loans in low- and moderate income census tracts declined slightly; however, the percentages are comparable to business demographic data.

<b>Table 5 – Distribution of Small Business Loans by Census Tract Income Level</b>							
<b>Census Tract Income Level</b>	<b>2010 % of Total Businesses</b>	<b>2010 Aggregate Lending Data (% of #)</b>	<b>2010 Bank</b>		<b>2011 % of Total Businesses</b>	<b>2011 Bank</b>	
			<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>
<b>Low</b>	9.5	4.8	7	12.3	9.1	4	8.7
<b>Moderate</b>	22.1	17.2	14	24.6	21.6	11	23.9
<b>Middle</b>	42.3	50.5	32	56.1	42.3	23	50.0
<b>Upper</b>	26.1	27.5	4	7.0	27.0	8	17.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>57</b>	<b>100.0</b>	<b>100.0</b>	<b>46</b>	<b>100.0</b>

*Source: 2010 and 2011 D&B Business Data; 2010 and 2011 CRA Registers*

### **Lending to Borrowers of Different Income Levels and Businesses of Different Sizes**

Based on the review of the HMDA LARs and the CRA Small Business Loan Registers, the Bank has achieved an excellent penetration of loans among retail customers of different income levels and businesses of different revenues. The following sections detail the Bank's performance by loan type.

#### ***Home Loans***

Residential lending data was reviewed to assess how well the Bank is addressing the housing credit needs of the area's low-, moderate-, middle-, and upper-income residents. Special consideration is placed on the Bank's record of lending to low- and moderate-income borrowers residing in the assessment area. Refer to Table 6 for information concerning the distribution of loans by borrower income.

<b>Table 6 – Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Income Level</b>	<b>% of Total Families</b>	<b>2010 Aggregate Lending Data (% of #)</b>	<b>2010 Bank</b>		<b>2011 Bank</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	22.4	6.5	19	18.5	5	9.6
<b>Moderate</b>	17.9	19.1	27	26.2	15	28.9
<b>Middle</b>	22.1	24.3	23	22.3	13	25.0
<b>Upper</b>	37.6	45.8	19	18.4	9	17.3
<b>NA</b>	--	4.3	15	14.6	10	19.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>103</b>	<b>100.0</b>	<b>52</b>	<b>100.0</b>

*Source: 2000 U.S. Census Data; 2010 and 2011 HMDA Data*

As Table 6 shows, moderate-income borrowers accounted for the highest single share of total loans during 2010 and 2011. Notable is the fact that the percentage of lending to moderate-income borrowers far exceeded the percentage of moderate-income families in the area. The Bank had a particularly strong penetration in the home purchase category to these borrowers.

While low-income borrowers accounted for a lower share of total loans and the proportion of loans to low-income borrowers was below the percentage of low-income families in the assessment area, the volume of lending to low-income borrowers, especially in the home purchase category, was excellent, considering the high cost of housing in the area. Further, of the 22.4 percent of low-income families, 8.3 percent are classified as below the poverty level, and families at this income level would generally not qualify for home financing.

Aggregate 2010 HMDA data was also used for comparative purposes. The data shows the Bank significantly exceeded the aggregate levels among both the low- and moderate-income borrowers. The Bank's ability to lend to low- and moderate-income borrowers is attributed, partially, to the numerous lending programs targeted toward the needs of low- and moderate-income borrowers. Specifically, the Bank offers loan programs through the Massachusetts Housing Finance Agency (MHFA). The MHFA offers a variety of loan programs for low- and moderate-income borrowers, which feature competitive interest rates and flexible underwriting standards. The Bank also makes use of SoftSecond™ mortgage through the Massachusetts Housing Partnership, which provides borrowers with down payment and closing cost assistance. This assists consumers who might not otherwise qualify for financing in attaining homeownership.

Market rank data for 2010 shows the Bank ranked 7<sup>th</sup> of 124 lenders and 24<sup>th</sup> of 182 lenders who reported originating loans to low- and moderate-income borrowers, respectively. With these rankings, the Bank captured 2.6 percent and 1.2 percent of these markets. As 2011 aggregate data is not yet available, similar comparisons cannot be made for this year.

### ***Small Business Loans***

Small business lending was reviewed to assess how well the Bank is addressing the area's business credit needs. Table 7 provides information regarding the distribution of small business loans to businesses with revenues under \$1 million and shows that the Bank has a good record of serving the credit needs of the area's small businesses.

<b>Table 7 – Distribution of Small Business Loans by Gross Annual Revenues (GAR)</b>							
<b>GAR \$(000s)</b>	<b>2010 % of Total Businesses</b>	<b>2010 Aggregate Lending Data (% of #)</b>	<b>2010 Bank</b>		<b>2011 % of Total Businesses</b>	<b>2011 Bank</b>	
			<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>
≤ \$1,000	74.8	26.7	37	64.9	66.5	24	52.2
>\$1,000 or NA	25.2	73.3	20	36.1	33.5	22	47.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>57</b>	<b>100.0</b>	<b>100.0</b>	<b>46</b>	<b>100.0</b>

*Source: 2010 and 2011 D&B Business Data; 2010 and 2011 CRA Registers*

Table 7 shows for 2010 the Bank made 64.9 percent of its small business loans to businesses with gross annual revenues of \$1 million or less. At this level, the Bank is significantly above the aggregate and not far below the 74.8 percent proportion of businesses in the assessment area of this revenue level. In 2011, the Bank's lending to this group declined to 52.2 percent. This was below the percentage of small businesses in the assessment area.



## Community Development Lending

The Bank's community development lending activities were evaluated pursuant to the following criteria: (1) the extent to which community development lending opportunities have been made available to the institution; (2) the responsiveness of the institution's community development lending; and (3) the extent of leadership the institution has demonstrated in community development lending.

For the purpose of this evaluation, a community development loan is a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the Bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the Bank's assessment area or a broader statewide or regional area that includes the Bank's assessment area.

The Bank made an adequate level of community development loans during the evaluation period, at six loans totaling \$962,000. During the previous CRA evaluation period, the Bank originated seven community development loans totaling \$2.8 million. However, the continuing recession and conditions within the local housing market appear to have created a decline in community development activity overall, particularly in the area of affordable housing. Table 8 illustrates the Bank's community development lending during the evaluation period by year and by purpose.

<b>Table 8</b>						
<b>Community Development Loans</b>						
	<b>2010</b>		<b>2011</b>		<b>2012</b> <b>(1/1 – 8/26)</b>	
<b>Community Development Category</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Affordable Housing for Low- and Moderate-Income	4	528	1	49	0	0
Community Services for Low- and Moderate-Income	0	0	0	0	0	0
Revitalize Low- and Moderate Income Census Tracts	1	385	0	0	0	0
Total	5	913	1	49	0	0
<i>Source: Internal Bank records.</i>						

The following points illustrate an example of the Bank's community development loans.

- In 2010, the Bank made a \$67,000, one-year term loan to a non-profit corporation that rehabilitates properties in the City of Worcester. Once the project is completed, the borrower will sell the three-unit residential property under the local Affordable Housing program.
- In 2010, the Bank made a \$180,000 term loan to fund the purchase and renovation of a six unit residential apartment building in Worcester, which will provide affordable housing to the area's low- and moderate-income residents
- In 2010, the Bank made a \$385,000 term loan to refinance existing debt of a non-profit community development entity. This entity provides technical assistance and loan capital to community organizations and develops affordable housing projects in Worcester County. The organization improves neighborhoods by procuring and transforming troubled properties into affordable homes; lending to other non-profits and developers who do the same; and, offering homeowners and potential homebuyers training, loans, and other services.

## **Innovative or Flexible Lending Practices**

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: (1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and (2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

The Bank uses innovative and/or flexible lending practices in order to serve the assessment area's credit needs. The Bank offers various special mortgage loan programs tailored to assist either lower-income households or first-time homebuyers in pursuing or maintaining homeownership. Additionally, the Bank offers Small Business Administration (SBA) loans to better meet the credit needs of the area's small businesses. Loans originated under these programs are reported on the Bank's HMDA LARs and CRA Small Business Loan Registers, and have already received credit in other factors of the Lending Test. A summary of the more active programs follows in order to highlight the innovative and flexible underwriting standards employed in the origination of loans for low- and moderate-income people and to businesses of different sizes. As the following is a summary of the active programs, it is important to note that other programs are available; however, there has not been any activity through them during the evaluation period.

### ***Home Loans***

- "First Connection" Mortgage - This mortgage provides financing to low- and moderate-income first-time homebuyers who are purchasing properties that have been rehabilitated by local community development organizations. Often, these borrowers are pre-screened for eligibility by the organization. Since the prior evaluation, the Bank originated seven loans totaling \$656,715 under this program.
- Massachusetts Housing Finance Agency (MHFA) - The Bank has partnered with the MHFA to offer the "MassAdvantage" loan program to first-time homebuyers. Under the MassAdvantage program, income-eligible borrowers, those earning 80 percent or less of the median income, receive below-market interest rates, low down payment options, and flexible underwriting guidelines. Since the prior evaluation, the Bank originated 10 MassAdvantage loans totaling \$1.5 million.
- Federal Home Loan Bank of Boston (FHLB) Equity Builder Program (EBP) – The Bank is a participating lender with the FHLB EBP. The EBP is a grant program designed to support residential lending by member financial institutions for home buying households earning no more than 80 percent of the area median income. Potential homebuyers are enrolled in the EBP by participating lenders who are working with them to obtain home mortgage financing. The funding is typically used toward down payment and closing costs. During the evaluation period, the Bank originated two loans totaling \$11,957 through this program.
- First Connection – Mortgage First Time Homebuyer Program – This homeownership program offers a fixed-rate loan made in connection with a local community development center (CDC) (e.g. Oak Hill CDC, Worcester Common Ground, Main South CDC, etc.). The First

Connection program provides mortgage financing to qualified low- and moderate- income first-time homebuyers, on homes that were rehabilitated or newly constructed by the agency. Potential borrowers are generally pre-screened by the agencies to determine eligibility. A mortgage under this program may also be made in connection with eligible SoftSecond™ homebuyers and/or eligible EBP grant recipients. Additionally, a \$500.00 credit is provided at closing. During the evaluation period, the Bank originated seven First Connection loans totaling \$656,716.

- SoftSecond™ Loan Program – The Bank participates with the Massachusetts Housing Partnership (MHP) to provide first-time homebuyers increased purchasing power through two mortgages – a conventional first mortgage and a subsidized second mortgage. Dividing the mortgage between two loans, lowers the first mortgage and allows participating homebuyers to avoid private mortgage insurance, which reduces overall monthly expenses. To be eligible, borrowers must be first-time homebuyers, complete an approved homebuyer training course, and have income within the household income eligibility guidelines (based upon the municipality in which they are looking to purchase a home). MHP is an organization dedicated to affordable housing. During the evaluation period, the Bank originated 10 loans totaling \$403,710 under this program.
- “Get The Lead Out” Loan Program – Through a program sponsored by MHFA, the Bank provides low-cost financing to qualified owners of one-to-four family properties to remove lead paint from their homes. The MHFA has established income levels that vary by municipality. The program is available to owner-occupants, investor owners, and non-profit organizations. During the evaluation period, the Bank originated one loan totaling \$23,573 through this program.
- Home Improvement Program – The Bank has partnered with MHFA and offers low-cost financing for income eligible homeowners to repair their homes. This program is available to owner-occupied, one-to-four family properties and condominiums. Loan amounts range from \$5,000 to \$50,000. MHFA has designated the Bank as 1 of only 11 Banks in the state to participate in this program. Since the previous evaluation, the Bank originated one loan totaling \$30,000 under this program.
- Buy Worcester Now – The Bank is a participating lender with the City of Worcester limited-time initiative to promote homeownership and offer potential homebuyers discounted services and responsible mortgage products. To qualify, prospective homebuyers must secure a mortgage from a participating bank, credit union, or mortgage company. While there is no requirement to be a first-time homebuyer, the borrower must reside in the home upon purchase. Loan options which qualify for this program include several of the income-restricted programs previously described in this section, such as MassAdvantage and MHP’s SoftSecond™ program. During the review period, the Bank originated one loan for \$48,000 through Buy Worcester Now.

### ***Small Business Loans***

- Small Business Administration (SBA) Loans – The SBA offers several programs for small businesses with a maximum guaranty of 50 percent. Collateral is not required for loan amounts

of \$25,000 or less. During the evaluation period, the Bank originated one loan for \$50,000 under this program.

- MassCap Capital Access Program (CAP) - The CAP is administered by the Massachusetts Business Development Corporation (MBDC), whose mission is to provide financing and financial services to growing companies that create jobs in Massachusetts. The CAP enables banks to increase flexibility in originating loans to small businesses, especially those that may not qualify under normal loan underwriting policies. “Pooled reserve” accounts are established at each participating bank from funds contributed by the bank, the borrower, and the Commonwealth of Massachusetts. The Bank can draw down these accounts to absorb losses incurred on qualifying small business loans enrolled in the CAP. To participate in the program, a loan must be made to a qualifying small business based in Massachusetts; the business must have annual sales of less than \$5 million; and the loan amount generally may not exceed \$500,000. During the evaluation period, the Bank originated five loans totaling \$210,000.

Although consumer loans are not otherwise addressed in this Performance Evaluation, the Bank offers the “First Step” – a fixed-rate, unsecured small dollar installment loan product. The loans are available in amounts of \$300 to \$1,000, and are offered to assist those who have never had credit to establish a credit history, and those who have experienced credit problems to improve their credit history. Since the previous evaluation, the Bank originated 35 loans totaling \$29,900 under this program.

## INVESTMENT TEST

*The Investment Test evaluates an institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the Investment Test. The institution's investment performance is evaluated pursuant to the following criteria:*

- *The dollar amount of qualified investments.*
- *The innovativeness or complexity of qualified investments.*
- *The responsiveness of qualified investments to credit and community development needs.*
- *The degree to which the qualified investments are not routinely provided by private investors.*

*A qualified investment is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose. Community development includes affordable housing for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low- and moderate-income geographies*

The Bank has an excellent level of qualified community development investments and grants, and exhibited excellent responsiveness to credit and community development needs of its assessment area. The Bank’s qualified investments total \$18,019,617, which includes \$17,724,937 in 22 equity investments, and \$294,680 in grants or donations.

## Equity Investments

As of August 27, 2012, the total value (original value of new investments plus current book value of prior period investments) of the Bank's qualified equity investments was \$17,724,937. This equates to 3.1 percent of total assets and 10.5 percent of investments. These percentages are higher than those during the previous evaluation, when qualified equity investments represented 1.9 percent of total assets and 7.4 percent of total investments, respectively. The following is a summary of the qualified investments made during the evaluation period and/or held in the investment portfolio from prior evaluation periods.

- *Federal National Mortgage Association (Fannie Mae)*: Fannie Mae is a stockholder-owned corporation that purchases and securitizes mortgages to ensure funds are available to lending institutions. The Bank currently holds three Fannie Mae securities purchased during previous CRA evaluations. The securities are each backed by one- to- four family residential mortgages. Based upon the addresses of the residences collateralizing the bond, 35 percent were located in the assessment area, and all underlying loans were to low- and moderate-income individuals. The current total book value of these securities is \$244,063.
- *Government National Mortgage Corporation (Ginnie Mae)*: Ginnie Mae is a government owned corporation that provides guarantees on mortgage-backed securities. During the evaluation period, the Bank purchased five securities. At purchase, these securities totaled \$12,222,459 and have a current book value of \$9,580,535. Additionally, the Bank continues to carry one Ginnie Mae security purchased prior to this evaluation period. The current book value of this security is \$1,380,171. Each of these securities is backed by one- to- four family residential mortgages made to low- and moderate-income borrowers. Based upon the addresses of the residences collateralizing the bond, 44.2 percent were located in the assessment area.
- *Federal Home Loan Mortgage Corporation (Freddie Mac)*: Freddie Mac is a government-sponsored enterprise that buys mortgages on the secondary market, then pools and sells them. The Bank currently holds three Freddie Mac securities, all of which were purchased prior to the previous CRA evaluation. The securities are each backed by mortgages, the majority of which (66.7 percent) were made to low- and moderate-income borrowers within the Bank's assessment area. The total current book value of these securities is \$64,564.
- *MassHousing (MHFA)*: MassHousing was established to increase the supply of residential housing within Massachusetts. MassHousing sells federally authorized, tax-exempt and taxable bonds to individual and corporate investors. During the evaluation period, the bank purchased four bonds. At purchase, they totaled \$1,095,000 and have a current book value of \$1,095,000. Additionally, the Bank carries five MHFA bonds purchased prior to this evaluation period; the current book value of which is \$2,628,680. The funds are used to finance the acquisition and/or rehabilitation of one- to- four family dwellings for low- and moderate-income individuals or families.
- *Massachusetts State Development Finance Agency Human Services (Agency)*: The Agency works with private- and public-sector clients to stimulate economic growth by eliminating blight, preparing key sites for development, creating jobs, and increasing the state's housing supply. The Bank holds one bond from the Massachusetts Development Finance Agency.

The funds will be used for the advance refunding of 1995 and 1997 bond issues, the refinancing of conventionally financed mortgages, and the construction of an addition to the Seven Hills' main facility. The current book value of this bond is \$90,000.

## Charitable Contributions

The Bank also made contributions to organizations that promote affordable housing and provide community services to low- and moderate-income individuals within the assessment area. The majority of the Bank's donations are made through the WFCSF, an organization established in 1995 for the sole purpose of making charitable contributions that benefit the assessment area. The remainder of the donations were made through the Bank's branch offices.

The Bank provided \$294,680 in grants and donations to organizations that provide education and training, affordable housing, youth programs, and health and human services to lower income residents. This represents 85 percent of WFCSF's total contributions of \$346,850 made during the period. It is noted the amount of donations has decreased since the previous evaluation, at which time qualified donations totaled \$427,798. Included in the total qualified donations were those made through individual branch offices. Refer to Table 9 for a summary of the Bank's donation activity during the evaluation period.

Table 9 Community Development Grants and Donations by Category								
Community Development Category	2010		2011		2012 (1/1 – 8/26)		Total	
	#	\$ (000)	#	\$(000)	#	\$(000)	#	\$(000)
Affordable Housing	4	15,500	4	13,500	3	7,500	11	36,500
Community Services	41	88,075	48	101,980	35	68,125	124	258,180
<b>Total</b>	<b>45</b>	<b>103,575</b>	<b>52</b>	<b>115,480</b>	<b>38</b>	<b>75,625</b>	<b>135</b>	<b>294,680</b>

Source: Internal Bank Records

The following are some organizations that received donations from the Bank:

**Central Mass Housing Alliance** - This organization responds to the needs of the homeless by supporting prevention programs, ensuring the availability of high quality and appropriate sheltering, and support services.

**Veterans, Inc.** - This organization supports Veterans and their families by providing such services as emergency shelter, supportive housing, hot meals, and a food bank.

**Tri-Valley, Inc.** - This organization offers a Money Management Program that assists low-income elders residing in South Central Massachusetts who have disabilities that do not allow them to read or write clearly. The Bank continues to offer significant support to this organization.

**Boys & Girls Club of Worcester, Boys & Girls Club of Webster – Dudley, Inc.** – The Bank continues to offer a high level of financial support for these organizations. These Clubs provide many programs designed for low-income families and children. The programs enable at-risk youth to develop creativity and cultural awareness.

**United Way of Webster and Dudley** - This organization funds many community services targeted to low- and moderate-income individuals. The Bank continues to match all employee donations to this organization.

**Henry Willis Community Center** – This organization operates the Starting Point Program facility. This is an 18 bed, long-term residential facility for abused adolescent boys who have been removed from their homes by the Commonwealth of Massachusetts.

**Worcester Community Action Council** – This organization was founded to stimulate change in the fundamental causes of poverty and to create and provide opportunities for economic self-sufficiency through services, partnership, and advocacy.

**Worcester Youth Center** – This organization provides a place where young people can build lasting, positive change in their lives. The Center’s programs are designed to empower young people with the education, leadership skills, and experience needed to build long-term capacity and self-confidence. This is the only free drop-in center for at-risk teens in Worcester. Most youth are from traditionally disenfranchised neighborhoods with high concentrations of poverty, physically deteriorating surroundings, a shortage of affordable housing, and areas with crime.

**Auburn Youth and Family Services, Inc.** – This organization serves needy children and families in Auburn. The organization has many programs such as the after school and summer programs that are targeted toward children ages 6-14 years old whose families are low- or moderate-income.

**Abby Kelley Foster House, Inc.** – This organization operates a residence in downtown Worcester that provides affordable single-room occupancy housing for low-income women.

## **SERVICE TEST**

*The Service Test evaluates an institution’s record of helping to meet the credit needs of residents within its assessment area by analyzing both the availability and effectiveness of an institution’s systems for delivering retail banking services and the extent and innovativeness of its community development services.*

The Bank’s services are readily accessible to all portions of the assessment area. The Bank is also a leader in providing the area with community development services.

## **RETAIL BANKING SERVICES**

### **Accessibility of Delivery Systems**

The Bank’s retail services are readily accessible to all portions of the assessment area. The Bank’s office locations are distributed in such a way that no portion of the assessment area is inconvenienced. Alternative delivery systems are also available to compensate for any limitations on physical access to the Bank’s facilities.

The Bank operates eight offices: its main office in Webster and branch offices in Auburn, Dudley, Oxford, Shrewsbury, and Worcester (3). Table 10 illustrates the distribution of the

Bank's branches and ATMs by census tract income level, and compares their locations to the distribution of the area's census tracts and population by income level.

<b>Table 10</b>						
<b>Distribution of Branches and Automatic Teller Machines (ATMs)*</b>						
<b>Census Tract Income</b>	<b>Percent of Tracts</b>	<b>Percent of Population</b>	<b>Branches</b>		<b>ATMs</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	12.5	10.6	2	25.0	3	21.4
Moderate	22.5	21.9	3	37.5	5	35.7
Middle	47.5	44.6	2	25.0	4	28.6
Upper	16.3	22.8	1	12.5	2	14.3
NA	1.2	0.1	0	0.0	0	0.0
Total	100.0	100.0	8	100.0	14	100.0

*\*Distribution of census tracts and population: 2010 Census data; Branch/ATM distribution: 2010 Census data*

As Table 10 illustrates, the offices are well distributed throughout the assessment area. Offices are located in each of the four census tract income groups and are not located in such a way as to inconvenience any segment of the area's population. The Chandler Street and the Commercial Street branches in Worcester are located in low-income census tracts. The Grafton Street branch in Worcester, the main office in Webster, and the Auburn branch are located in moderate-income census tracts. The Dudley and Oxford branches are located in middle-income tracts and the Shrewsbury branch is located in an upper-income census tract. Low-income tracts contain 10.6 percent of the assessment area population and 25.0 percent of the Bank's branch locations. Moderate-income tracts contain 21.9 percent of the assessment area population and 37.5 percent of the Bank's branch locations. The proportion of branches in low- and moderate-income tracts exceeds the percentage of the population in those census tracts. The Bank's branch locations in middle- and upper-income census tracts are also accessible to residents of low- and moderate-income geographies.

In addition to its branch offices, the Bank operates 14 proprietary ATMs throughout the assessment area. Each of the Bank's office locations has at least one ATM on-site, with the main office and three branches having two ATMs including a walk-up and a drive-up. The Bank also operates a stand-alone ATM at the Commerce Insurance Company. A high percentage of the Bank's ATMs (57.1 percent) are located in low- or moderate-income census tracts, which is consistent with the distribution of branches.

### **Changes in Branch Locations**

With the exception of a branch relocation, the Bank has not closed or opened any offices since the prior evaluation. Specifically, the Bank relocated its branch office at 278 Park Avenue in Worcester to 266 Chandler Street, which is adjacent to Park Avenue. Both branch locations were in low-income census tracts; therefore, there was no impact on the accessibility of services to the area's low- and moderate-income population.



## **Alternate Delivery Systems**

In addition to branch and ATM services, the Bank offers a free 24-hour automated *Tellalink* telephone banking system. Users of the system can, among other services, check account balances, review deposits and withdrawals, transfer money between accounts maintained at the Bank, obtain current overdraft information, and get information on all of the Bank's branches.

The Bank also provides internet banking through [www.web5.com](http://www.web5.com), where customers are able to manage their finances from a home or office computer, free of charge. Through the *QuickPath Internet Banking* service, customers are able to access accounts; transfer funds; reference account summaries; view on-line statements; identify any uncollected funds; place stop payment orders; obtain deposit account disclosures; and, communicate with the Bank through electronic mail. A similar online service is offered to business customers. Additionally, the Bank offers *QuickPath Bill Pay*, which provides consumers a quick, easy, and free way to pay bills on-line.

The Bank offers an ATM / debit card that can be used for payment on purchases anywhere MasterCard is accepted, with the funds deducted from the customer's designated checking account. There are no fees when purchases are made using the debit card. In addition, the Bank's ATMs are available in both English and Spanish.

To better serve the non-English speaking community, the Bank employs numerous bilingual employees. Second languages spoken include Albanian, Arabic, Dutch, French, German, Gujarati, Hindi, Italian, Laotian, Polish, Portuguese, Russian, Spanish, Telugu, and Vietnamese.

## **Reasonableness of Business Hours and Services**

Services, including business hours, do not vary in a way that inconveniences any portion of the assessment area or any group of individuals. Office hours are generally consistent across all branches, and are considered comparable to other local financial institutions. Branches open at either 8:00 a.m. or 9:00 a.m. and close at 4:00 p.m., except for two nights each week when the closing time is extended to 5:00 or 6:00 p.m. on Thursday and Friday. The only exception is the Commercial Street branch in Worcester, which closes at 4:00 p.m. daily. All branches with the exception of the Commercial Street branch in Worcester have Saturday morning hours. Drive-up service, beginning at 8:00 a.m., Monday through Saturday, is available at all branch offices except the Commercial Street and Grafton Street Worcester branches.

A variety of deposit products, loan products, and business services are available at all office locations. The Bank offers checking, passbook, statement savings, certificate of deposit, and individual retirement accounts. Loan products offered include fixed- and adjustable-rate mortgages, construction loans, and consumer loan products such as automobile, home improvement, overdraft protection, personal loans, home equity loans, and home equity lines of credit.

## **Community Development Services**

The Bank is a leader in providing community development services. Given the high percentage of low- and moderate-income individuals residing in the assessment area and the insights provided by the community contacts, it can be concluded that these services are greatly needed

and have resulted in a better-educated community. Further evidence of the Bank's dedication and commitment to serving these individuals was through the receipt of two awards. In June 2011, the Bank was awarded the Stoddard Award by the United Way of Central Massachusetts. This award is the United Way's highest honor and is bestowed on an organization that recognizes outstanding support, including conducting an excellent employee campaign as well as maintaining a strong volunteer network and financial support. Additionally, in October 2010, the Bank received The Opening Doors Award for showing a demonstrated commitment to opening doors to affordable housing for low-and moderate-income families.

Table 11 provides a summary, by community development category, of organizations in which employees were involved during the evaluation period.

<b>Table 11</b>	
<b>Community Development Organizations</b>	
<i><b>Community Development Category</b></i>	
Affordable Housing for Low- and Moderate	4
Promote Economic Development	2
Community Services Targeted for Low- and Moderate-Income	9
<b>Total</b>	<b>15</b>

The following points illustrate an example of the organizations in which employees were involved during the evaluation period. All of the services meet the definition of community development, and related to the provision of financial services as required by the regulation for consideration under CRA.

#### ***Canal District Business Association***

The Canal District Business Association is a Worcester, Massachusetts organization that is made up of business owners that are located along the Blackstone Canal in Worcester. The organization is in the process of development and will provide an increased awareness of this district as well as bring new businesses into the area. A Branch Manager is on the Organization Committee.

#### ***Central Massachusetts Housing Alliance***

The Central Massachusetts Housing Alliance is committed to a leadership role in helping the communities of Greater Worcester and Worcester County respond to the needs of the homeless and near homeless by supporting prevention programs; ensuring the availability of high quality and appropriate sheltering and support services; encouraging the availability and access to decent affordable housing; and empowering people through education. A Branch Manager serves as on the Board of Directors.

#### ***Children's Friend, Inc.***

Children's Friend, Inc. is a non-profit agency that provides programs designed to improve the lives of children. Programs are designed to improve family relationships, ensure effective parenting, and protect children. Programs are offered to all regardless of the family's ability to pay. According to the Executive Director, 75 percent of the proceeds will be used to support individuals from low- and moderate-income families. The President serves as a Corporator.

***Tri-Valley, Inc.***

This private non-profit agency seeks to maintain the highest possible quality of life for seniors, younger people with disabilities, and their caregivers in the community. The grants help support the money management program of Tri-Valley, which assists low-income elders. A Senior Vice President and Treasurer serves as a member of the Board of Directors and as Treasurer.

***Worcester Alliance for Economic Inclusion***

This alliance consists of a coalition of many types of organizations such as financial institutions, community-based organizations, and public organizations, among others. They are committed to the economic well-being of low- and moderate-income individuals and families. A Senior Vice President works on the Products and Services Working Group.

***Worcester Common Ground CDC***

This community development corporation promotes and develops permanent and sustainable improvement in the community through affordable housing, community activism, and economic development in the Central area of Worcester. A Branch Manager serves on the Board of Trustees.

**Educational Services and Seminars****Financial Education**

- The Bank continues to participate in the Massachusetts Treasurer's Saving Makes Cents program whose goal is to teach elementary school children basic money management skills. The Bank takes a leadership role in this program by instructing students at schools in Dudley, Oxford, and Worcester (3). Bank employees instruct a minimum of eight lessons per school and have a higher level of involvement and participation in the inner-city schools.
- In 2010, 2011, and 2012, the Bank's Vice President of Business Services was a co-presenter of Budgeting \$101–Back to Basics at the Women's Initiative "Planning for Change."
- The Bank participates in the FDIC's Money Smart Alliance program. This program is a comprehensive financial education curriculum designed to help individuals outside the financial mainstream develop financial skills and positive banking relationships. In August 2012, the Bank conducted a budgeting session at the Fieldstone School and in February 2012, at Oxford High School to members of the Life Skills Program.
- In 2010, 2011, and 2012, the Bank participated in the Massachusetts Bankers Association Consumer Credit Counseling Service whose primary goal is to provide confidential financial guidance, free consumer credit counseling services, educational resources, and debt management assistance. The Bank utilizes the agency's consumer credit education and counseling service for their borrowers who need debt management planning to avoid bankruptcy or financial hardship.

- The Bank continues to offer financial literacy to seniors at Tri-Valley Elder Services. Bank employees met one-on-one approximately 70 times for the period under review with various seniors that needed assistance with financial matters.
- For three consecutive weeks in 2011, several Bank employees conducted financial literacy training program that included a History of Banking, budgeting, thrift and lending knowledge to students at Spectrum Recovery through Education Adventure, Commitment, and Health in Grafton.
- In January 2011, a Branch Manager presented the Bank's First Step Account at the Spectrum House, a home for recovering substance abusers.
- During the evaluation period, employees participated in approximately eight individual conferences sponsored by The United Way's Dollar Scholar Financial Literacy Program. The women volunteers help raise financial literacy awareness for 8<sup>th</sup> grade girls. This commitment also includes mentor training in which the Bank employees participated.
- The Consumer Lending Officer made a presentation to students at Nichols College on the importance of establishing and maintaining good credit.
- A Branch Manager volunteered to help needy residents prepare their tax returns at the Main South Community Development Corporation. This was part of the Earned Income Tax Coalition Volunteer Income Tax Assistance (VITA) Program.

#### Homebuyer / Homeowner Education

- The Bank continues to support "NeighborWorks" HomeOwnership Center of Worcester through its training programs. The Bank was a presenter for the NeighborWorks first time homebuyer certification training sessions: three were held in 2010; two were held in 2011; and, two were held year-to-date 2012.

#### Small Business Support and Education

- The Vice President of Business Banking continues to participate in the educational loan program at the Small Business Development Center at Clark University, which includes the micro-loan program.

#### **Loan Modifications**

In 2008, the Bank began offering loan modifications for residential loans to help customers avoid foreclosure and retain homeownership. During the evaluation period, the Bank extended 25 hardship loan modifications. Of these 25 modifications, 17 or 68.0 percent were in the Bank's assessment area and were to low- or moderate-income individuals. This program is considered under the Service Test, as additional expertise and resources were provided in assisting low- and moderate-income homeowners to avoid foreclosure.

## **Other Special Programs**

The Bank participates in the Massachusetts Community and Banking Council's (MCBC) Basic Banking in Massachusetts program. This statewide program is designed to offer low cost checking and savings accounts to low- and moderate-income individuals.

The FDIC selected the Bank to be one of nine banks in the country to participate in the Model Safe Accounts Pilot Program. The program began in the first quarter of 2011 and ended in the fourth quarter of 2011. The Bank gathered and submitted data to the FDIC quarterly. This case study helped the FDIC identify best practices of Banks offering safe and low-cost transactional and savings accounts, particularly those responsive to the needs of underserved consumers.

In addition, in March 2008, the Bank began offering the First Step Checking Account under the FDIC Chairman's pilot program. As of this evaluation date, the Bank opened 415 accounts and currently maintains 240 accounts with a total balance of \$99,192. This account has no monthly maintenance fee and can be opened for as little as \$10. With this account, the customer receives a debit card, but no personal checks are offered. Accountholders are offered money orders at no charge. The purpose of these restrictions is to reduce the probability the accountholder will overdraw the account. In addition, this account does not offer the overdraft protection feature. This account is designed to assist individuals who had difficulties managing a checking account in the past and are unable to open a checking account at another institution. A budgeting kit is also issued to further assist the customer overcome past financial difficulties.

## **APPENDIX A**

### ***Fair Lending Policies and Practices***

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 2.3-101.

The Bank's lending and compliance policies address fair lending issues. The policies address specific areas such as fair lending procedures, a loan application and evaluation process as well as applicable rules and regulations regarding the Fair Housing Act, the Equal Credit Opportunity Act (ECOA), the Consumer Protection Regulation, and the Home Mortgage Disclosure Act.

A review of the Bank's public comment file indicated the Bank received no complaints pertaining to the institution's CRA performance since the previous examination.

Included in the Bank's loan policy are the Bank's efforts to eliminate discrimination. The Bank provides fair lending training to all lending personnel. Management develops training programs which cover all aspects of the lending process.

The Bank has 119 employees: 84 are full-time, 27 are part-time, and 8 are per-diem. The Bank has 34 bilingual employees. Languages spoken are: Albanian, Arabic, Dutch, French, German, Gujarati, Hindi, Italian, Laotian, Polish, Portuguese, Russian, Spanish, Telugu, and Vietnamese.

The Bank has an established second review program for residential real estate and small business loans slated for denial. Before a denial is issued, two other loan officers must review the application and agree with the credit decision. Additionally, exceptions to the Loan Policy must be approved by the Board of Directors.

#### **MINORITY APPLICATION FLOW**

A review of residential loan applications was conducted to determine the number of HMDA-reportable credit applications the Bank received from minority applicants. For the period reviewed, the Bank received 25 HMDA reportable mortgage applications from minority applicants of which, 13 or 52.0 percent resulted in an origination. The Bank received 11 HMDA reportable applications from ethnic groups of Hispanic origin within its assessment area of which 7 or 63.6 percent resulted in an origination.

The Bank's minority application flow for this period was compared with the 2010 aggregate data for all other HMDA reporters within the assessment area. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority credit applicants. The Bank received fewer applications from both racial and ethnic minorities in 2010 than the aggregate, with the one exception being applications from African Americans, joint race, and joint Hispanic in 2010. The Bank's minority application flow was also compared with the demographics of its assessment area. According to the 2000 Census data, the assessment area has a total population of 357,563, of which, 82.3 percent is White, 3.5 percent is African American, 3.9 percent is Asian, 0.2 percent is American Indian, and 1.8 percent are identified as "other race". Of the total population, 29,608 or 8.3 percent report an ethnicity of Hispanic.

Refer to the following table for details regarding the Bank's applications. Also included in the table is the 2010 aggregate data (exclusive of Webster Five Cents Savings Bank).

MINORITY APPLICATION FLOW								
RACE	Bank 2010		Aggregate Data 2010		Bank 2011		Bank TOTAL	
	#	%	#	%	#	%	#	%
<i>American Indian/Alaska Native</i>	0	0.0	42	0.2	2	1.5	2	0.6
<i>Asian</i>	6	3.2	1,837	8.0	3	2.2	9	2.8
<i>Black/ African American</i>	6	3.2	450	2.0	4	2.9	10	3.2
<i>Hawaiian/Pac Isl.</i>	0	0.0	31	0.1	0	0.0	0	0.0
<i>2 or more Minority</i>	0	0.0	10	0.0	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	4	2.1	190	0.8	0	0.0	4	1.2
<b>Total Minority</b>	<b>16</b>	<b>8.5</b>	<b>2,560</b>	<b>11.1</b>	<b>9</b>	<b>6.6</b>	<b>25</b>	<b>7.8</b>
<i>White</i>	132	71.5	15,535	67.4	103	75.1	235	73.0
<i>Race Not Available</i>	37	20.0	4,949	21.5	25	18.3	62	19.2
<b>Total</b>	<b>185</b>	<b>100.0</b>	<b>23,044</b>	<b>100.0</b>	<b>137</b>	<b>100.0</b>	<b>322</b>	<b>100.0</b>
<b>ETHNICITY</b>								
<i>Hispanic or Latino</i>	0	0.0	554	2.4	7	5.1	7	2.2
<i>Not Hispanic or Latino</i>	132	71.4	17,386	75.4	106	77.4	238	73.9
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	4	2.2	162	0.7	0	0.0	4	1.2
<i>Ethnicity Not Available</i>	49	26.4	4,942	21.5	24	17.5	73	22.7
<b>Total</b>	<b>185</b>	<b>100.0</b>	<b>23,044</b>	<b>100.0</b>	<b>137</b>	<b>100.0</b>	<b>322</b>	<b>100.0</b>

Source: US Census, 2010 and 2118 HMDA LAR, 2007 HMDA Aggregate Data

The Bank's performance relative to receiving applications from minority applications is below the aggregate. There was a negative trend with regard to applications from minority applicants but a positive trend is noted in the performance in 2011 for Hispanic or Latino applications. Overall, the performance is considered adequate.

**APPENDIX B**  
*Loss of Affordable Housing*

**The Division of Banks' regulation 209 CMR 46.22(2)(g) requires that the evaluation of the lending performance of a large institution include a review of its efforts to forestall the loss of affordable housing. The Division reviews the institution's loans to ensure that there is no undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units.**

The Bank's development of credit products with flexible lending criteria, participation in flexible lending programs, community development lending, and lending to low- and moderate-income borrowers has assisted low- and moderate-income individuals to remain in their neighborhoods.



## **APPENDIX C**

### ***General Definitions***

#### **GEOGRAPHY TERMS**

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Metropolitan Area (MA):** One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

**Metropolitan Statistical Area (MSA):** One or more metropolitan areas that have economic and social ties.

**Primary Metropolitan Statistical Area (PMSA):** A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

**Consolidated Metropolitan Statistical Area (CMSA):** The larger area of which PMSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

## **HOUSING TERMS**

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

## **INCOME TERMS**

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

### **OTHER TERMS**

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

## APPENDIX D - INVESTMENT DEFINITIONS

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Low Income Housing Tax Credits:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

**Qualified Investments:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 136 Thompson Road, Webster, Massachusetts 01570."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.